

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Honorable Gary L. Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Estill County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Estill County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ESTILL COUNTY SHERIFF

For The Year Ended
December 31, 2002

Ross and Company, PLLC, has completed the Estill County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$1,159 from the prior calendar year, resulting in excess fees of \$5,483 as of December 31, 2002. Revenues decreased by \$8,356 from the prior year and disbursements decreased by \$7,197.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Estill County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Honorable Gary L. Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Ross and Company". The signature is stylized and cursive.

Ross and Company, PLLC

Audit fieldwork completed -
October 31, 2003

ESTILL COUNTY
GARY L. FREEMAN, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants	\$	16,990
State - Kentucky Law Enforcement Foundation Program Fund		7,208
State Fees For Services:		
Finance and Administration Cabinet	\$	8,057
Cabinet For Human Resources	<u>1,150</u>	9,207
Circuit Court Clerk:		
Sheriff Security Service	\$	6,793
Fines and Fees Collected	<u>5,605</u>	12,398
Fiscal Court		509
County Clerk - Delinquent Taxes		1,906
Commission On Taxes Collected		87,954
Fees Collected For Services:		
Auto Inspections	\$	4,145
Accident and Police Reports	780	
Serving Papers	9,425	
Carrying Concealed Deadly Weapon Permits	<u>3,435</u>	17,785
Other:		
10% Add on Fee	\$	21,571
Miscellaneous	<u>3,204</u>	24,775
Interest Earned		377
Borrowed Money:		
State Advancement		<u>34,917</u>
Total Receipts	\$	<u>214,026</u>

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY
 GARY L. FREEMAN, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	36,794	
KLEFPF Gross Salaries		6,776	
Other Salaries		36,947	
Overtime		501	
			\$ 81,018

Employee Benefits-

Employer's Share Social Security	\$	5,905	
Employer's Share Retirement		4,850	
Employer Paid Health Insurance		4,741	15,496

Materials and Supplies-

Office Materials and Supplies	\$	2,070	
Uniforms		1,719	3,789

Auto Expense-

Gasoline	\$	3,885	
Vehicle Maintenance and Repairs		3,494	7,379

Other Charges-

Dues	\$	337	
Telephone		209	
Postage		165	
Bank Charges		142	
Reimbursements		184	
Carrying Concealed Deadly Weapon Permits		2,135	3,172

Capital Outlay-

Office Equipment			254
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Debt Service:

State Advancement			34,917
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Total Disbursements

\$ 146,025

Net Receipts

\$ 68,001

Less: Statutory Maximum

62,518

Excess Fees Due County for 2002

\$ 5,483

Payments to County Treasurer - July 18, 2003

5,483

Balance Due at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4: Grant Agreement

The Estill County Sheriff's Office participated in a federal grant project entitled "COPS Universal Hiring Award" which provided the Sheriff's Office with funding for an additional officer. During calendar year 2002, \$15,913 was received and expended in order to accomplish grant objectives. As of December 31, 2002, the Office of the County Sheriff was in substantial compliance with the grant agreement.

COMMENT AND RECOMMENDATION

ESTILL COUNTY
GARY L. FREEMAN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations.

Sheriff's Response:

I understand.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated in current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Estill County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Estill County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
October 31, 2003

